

**REPORT OF THE AUDIT OF THE  
MONTGOMERY COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MONTGOMERY COUNTY SHERIFF**

**For The Year Ended  
December 31, 2009**

The Auditor of Public Accounts has completed the Montgomery County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$13,268 from the prior year, resulting in excess fees of \$15,732 as of December 31, 2009. Revenues decreased by \$7,338 from the prior year and expenditures decreased by \$20,606.

#### **Report Comment:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Floyd Arnold, Montgomery County Judge/Executive  
The Honorable Fred Shortridge, Montgomery County Sheriff  
Members of the Montgomery County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Montgomery County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 21, 2010 on our consideration of the Montgomery County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Floyd Arnold, Montgomery County Judge/Executive  
The Honorable Fred Shortridge, Montgomery County Sheriff  
Members of the Montgomery County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Montgomery County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

May 21, 2010



MONTGOMERY COUNTY  
FRED SHORTRIDGE, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	55,908
State Fees For Services:		
Finance and Administration Cabinet	\$	23,487
Sheriff Security Service	17,888	41,375
Circuit Court Clerk:		
Fines and Fees Collected		690
Fiscal Court		461,612
County Clerk - Delinquent Taxes		42,537
Commission On Taxes Collected		290,385
Fees Collected For Services:		
Auto Inspections	9,699	
Accident and Police Reports	1,106	
Serving Papers	78,663	
Carrying Concealed Deadly Weapon Permits	4,560	
Add-on Fee 10%	50,275	
Advertising Fees	590	
Conveying Prisoners	15,547	
HB 413- Fines/Fees For Cities	5,303	
Miscellaneous	1,244	166,987
Other:		
City of Maysville/Buffalo Trace Narcotics Taskforce	128,446	
Kentucky Agency for Substance Abuse	8,300	
Pathways Drug Awareness Education	8,750	
Wal-Mart Contribution	1,000	146,496
Interest Earned		73
Borrowed Money:		
State Advancement		125,000
Total Revenues		1,331,063

The accompanying notes are an integral part of this financial statement.

MONTGOMERY COUNTY  
 FRED SHORTRIDGE, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2009  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	482,142
Part-Time Salaries		50,660
Other Salaries		34,213
Overtime		25,168
State - KLEFPF		43,026

Employee Benefits-

Employer's Share Social Security		43,027
Employer's Share Retirement		5,443
Employer's Share Hazardous Duty Retirement		170,568
Employer Paid Health Insurance		94,805
Unemployment Ins. KACO		5,928

Contracted Services-

Advertising		468
Vehicle Maintenance and Repairs		22,071

Materials and Supplies-

Office Materials and Supplies		12,631
Uniforms		1,616

Auto Expense-

Gasoline		46,527
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Other Charges-

Conventions and Travel		800
Dues		795
Postage		509
Training		2,633
Prisoner Extraditions		10,623
KY Labor Cabinet Payment		9,971
Miscellaneous		2,822
		<hr/>
	\$	1,066,446

The accompanying notes are an integral part of this financial statement.

MONTGOMERY COUNTY  
 FRED SHORTRIDGE, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2009  
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-

Office Equipment	\$	11,647	
Technical Equipment		3,384	
Professional Equipment Supplies		<u>2,981</u>	\$ 18,012

Debt Service:

State Advancement	125,000
Lease Agreement	<u>22,965</u>

Total Expenditures	<u>\$ 1,232,423</u>
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Net Revenues	98,640
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Less: Statutory Maximum	<u>79,380</u>
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Excess Fees	19,260
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Less: Training Incentive Benefit	<u>3,528</u>
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Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 15,732</u></u>
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The accompanying notes are an integral part of this financial statement.

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2009  
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent for the first six months and 32.97 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Montgomery County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2009  
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Montgomery County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease

The Office of the Sheriff was committed to a lease agreement with Xerox for a copier. This agreement was completed in September 2009. The total remaining balance of the agreement was \$0 as of December 31, 2009.

Note 5. Additional Bank Accounts

A. Asset Forfeiture Account

The Sheriff maintains an account that consists of funds obtained through drug forfeitures and seizures. The balance was \$1,010 on January 1, 2009, receipts during the year were \$1,680 of interest earned, and expenditures were \$1,150 for fees. As of December 31, 2009, the balance was \$1,540.

B. Cold Check Clearing Account

The Sheriff maintains an account that consists of funds collected for cold checks. After the Sheriff collects funds for cold checks, the amount collected is then paid to the business that received the cold check. The balance was \$2,880 on January 1, 2009, collections during the year were \$39,489, and \$37,785 was returned to businesses. As of December 31, 2009, the balance was \$4,584.

Note 6. Payments Made to Kentucky Department of Labor

The Sheriff's office was required to repay former employees for overtime not paid in the amount of \$9,907 during 2009.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Floyd Arnold, Montgomery County Judge/Executive  
The Honorable Fred Shortridge, Montgomery County Sheriff  
Members of the Montgomery County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Montgomery County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated May 21, 2010. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Montgomery County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Montgomery County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Montgomery County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Montgomery County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

May 21, 2010

COMMENT AND RECOMMENDATION



MONTGOMERY COUNTY  
FRED SHORTRIDGE, SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements

The Sheriff has a lack of adequate segregation of duties over disbursements. The Sheriff's bookkeeper prepares all disbursements including payroll and records these payments in the disbursement ledger. The bookkeeper also prepares the quarterly financial report and monthly bank reconciliations. By not segregating these duties, there is an increased risk of misappropriation of assets either by error or fraud. In order to reduce this risk, we recommend the Sheriff or a person independent of disbursements reconcile the quarterly financial report and monthly bank statement to the receipts and disbursement ledgers. Approval should be documented on the bank reconciliation as well as the receipts and disbursements ledgers.

*Sheriff's Response: My staff is limited but I do manage and watch the transactions.*

